

*Re: Public Mission*

**BOARD OF  
SUPERVISORS:**

Malcolm Drilling Co., Inc.,  
Complied With the City Requirement  
Not to Use Any City Funds for  
Political Activities

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Audit Number 03042

July 21, 2004



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**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ed Harrington**  
**Controller**

**Monique Zmuda**  
**Deputy Controller**

July 21, 2004

Audit Number 03042

Board of Supervisors  
City Hall, Room 244  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

President and Members:

The Office of the Controller (Controller) presents its report concerning the audit of Malcolm Drilling Co., Inc. (Malcolm), and its compliance with the City and County of San Francisco (City) ordinance prohibiting the use of City funds for political activity. The San Francisco Administrative Code, Chapter 12G, defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. This audit was conducted to comply with the Administrative Code requirement for the Controller to audit annually for the use of city funds for political activity ten persons or entities that enter contracts, grant agreements, or loan agreements with the City. Malcolm had an \$87,305 contract with the San Francisco Public Utilities Commission to repair a road, and this contract was subject to the prohibition of political activity.

The audit revealed that Malcolm did not use for political activity any of the \$87,305 of city funds that it received.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Ed Harrington", written over a horizontal line.

Ed Harrington  
Controller



# INTRODUCTION

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## BACKGROUND

On November 5, 2002, the voters of the City and County of San Francisco (City) passed Proposition Q, which prohibits persons or organizations receiving contracts, grants, or loans from the City to use any funds appropriated by the City for political activity. The San Francisco Administrative Code, Chapter 12G, codified this proposition, defining political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. The chapter also requires that all contracts, grant agreements, and loan agreements incorporate the prohibition. According to the Office of the City Attorney, persons and organizations receiving contracts, grants, and loans are not subject to Chapter 12G unless the prohibition is incorporated in their agreements. According to a deputy city attorney, the agreements did not typically include the prohibition until after January 2003.

Section 12G.2 of the Administrative Code requires the Office of the Controller (Controller) to annually audit at least ten persons or entities that enter into contracts, grant agreements, or loan agreements with the City to ensure compliance with the prohibition on the use of city funds for political activity. We randomly selected for audit ten persons or entities receiving city funds from January 1, 2003, through June 30, 2003, through a contract, grant, or loan that contained the prohibition to use city funds for political activity.

Malcolm Drilling Co., Inc. (Malcolm), is one of the organizations we selected for review. Malcolm had an emergency contract with the City's Public Utilities Commission during the audit period, and this contract contained the prohibition to use city funds for political activity. Under the contract, Malcolm was to perform the emergency slide repair at the ongoing road near the San Andreas Dam. According to Malcolm's vice president, Malcolm performed the work from February 27, 2003 to March 7, 2003, and was paid the contract amount of \$87,305.



## SCOPE AND METHODOLOGY

The purpose of this audit was to determine if Malcolm inappropriately expended any city funds participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure.

To conduct the audit, we identified that Malcolm had one contract with the City from January 1, 2003, through June 30, 2003, that included the prohibition of using city funds for political activity. For this contract, we identified all payments that the City made to Malcolm, and we reviewed expenses of Malcolm that it expended to earn these contract payments. We assessed Malcolm's procedures for recording expenditures and reviewed some of its accounts and its financial statements to verify it did not spend city funds for purposes related to political activity as defined by the City. We also inquired of Malcolm if it had made any expenditure that may be related to supporting political activity. We searched the San Francisco Campaign Finance Database and the State of California's Cal-Access, which reports campaign contributions, to find instances where Malcolm was reported as making political contributions.





# AUDIT RESULTS

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## MALCOLM DID NOT USE CITY FUNDS TO PAY FOR POLITICAL ACTIVITY EXPENSES

Malcolm did not use any of the \$87,305 of city funds that it received to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure. We did not find any evidence in its accounting records or financial reports indicating that Malcolm incurred any expenditure for political activity. Furthermore, Malcolm informed us that it did not make such expenditures. In addition, the city and state campaign contribution databases did not show that Malcolm made any political contributions during the period we reviewed.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Ben Carlick, Audit Manager  
Edwin De Jesus

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Budget Analyst  
Public Library





